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June 20, 1990

FOREIGN CURRENCY STRATEGIES:

WHY ARE OUR HANDS TIED?

AN INDIVIDUAL STUDY PROJECT

by

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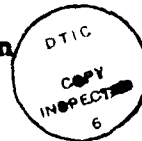
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20. ABSTRACT--Continued.

put forth that would allow the Army to take advantage of a proactive, positive strategy using futures contracts rather than the current reactive policy that leaves foreign currency needs to the mercy of the daily foreign currency market. Arguments that the impact can easily be absorbed by the federal budget and that the government should not be involved in speculation are rejected in favor of a strategy that recognizes the declining military budget. Foreign currency fluctuation should be managed so it has a positive rather than a negative influence on budget execution.

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ABSTRACT

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This essay explores the advisability of developing an Army corporate strategy to ameliorate the effects of foreign currency fluctuation on the Army budget. Initially there is a discussion of the current policies and regulations that govern the Army's foreign currency strategy. This is followed by an introduction and assessment of private sector tools that are used to offset the impact of adverse foreign currency fluctuations and to take advantage of favorable projections. Once these tools have been introduced, a proposal is put forth that would allow the Army to take advantage of a proactive, positive strategy using futures contracts rather than the current reactive policy that leaves foreign currency needs to the mercy of the daily foreign currency market. Arguments that the impact can easily be absorbed by the federal budget and that the government should not be involved in speculation are rejected in favor of a strategy that recognizes the declining military budget. Foreign currency fluctuation should be managed so it has a positive rather than a negative influence on budget execution.

INTRODUCTION

The DOD budget is in a period of decline. This is not right or wrong it is simply a fact. The Army's portion of the budget is declining more rapidly than the other services primarily because the perceived reduction of a threat to U.S. national security objectives is being played out in Europe where the preponderance of forces and the anticipated attack would have involved ground forces. This is also a fact. As the Army develops its strategy to redirect its emphasis and redefine its role as the defender of the homeland and a rapid power projection asset, there is a need to ensure that the realities of today are not lost in the heady atmosphere of tomorrow. The U.S. Army will still maintain a substantial number of troops overseas and be required to support them. Consequently, there will be a continuing requirement for foreign currency. The current restrictive Treasury regulations do not allow an objectively sound foreign currency market strategy. This paper will provide an overview of current policy, an analysis of its strengths and weaknesses, possible alternative strategies and a program for the future.

Foreign currency is not a sexy subject. Even if the Army could develop a perfect prognostication model, the savings probably would not fund one B-2 bomber. The point is that there is an opportunity cost involved that when balanced against the risk taken could provide the Army with a tool to impact its budget by several million dollars. It is a case where private industry has already established the procedures and methods and the Army could simply "buy" the expertise to execute its strategy. There are forces and risks that do caution against a "riskier" foreign currency policy, but the benefits outweigh the possible cost.

BACKGROUND

The Army goes through an agonizing annual process to present its budget to be included as part of the President's submission to Congress estimating the cost of running the Executive Branch and its departments for another year. The professionals who put the Army budget together are constrained by many factors that impact on all budgeteers and by some factors that are unique to the governmental process. A budgeteer in the private sector deals with uncertainty and projections of what he expects to happen just as the governmental budgeteer. Unlike the governmental budgeteer, however, the private sector budgeteer does not have his budget scrutinized in great detail by a committee of 535 each of whom conducts his or her own personal review. In theory these reviews are objective evaluations that in the case of DOD determine how the budget is supporting the U.S. national security objectives. In too many cases, however, it is an analysis of how the President's budget affects the constituents of the 535. This review/approval process guarantees suboptimization as parochial interests impact on or in some cases supplant national interests and increase the frustration of the governmental budgeteer.

The budgeteer is a unique breed of animal who using past performance attempts to forecast the future. He has no special prognostication skills. He very rarely has the opportunity to make an operational decision (as it should be) that would allow him to affect the actual outcome versus what he had predicted would happen. Yet, he is a proud individual who is truly satisfied only when the mission is accomplished and his estimate of resources required is what was actually used. Deviations are his anathema. This is especially true when he cannot objectively ply his trade, but instead must accept an artificial constraint

that he knows will affect the actual performance data versus what he had projected. The governmental budgeteer becomes further frustrated when he can foresee an anomaly, but is precluded from fixing it by overly restrictive governmental policy. Such is the current case in the area of foreign currency fluctuation.

The Department of Defense in support of U.S. national security objectives is forward deployed in many regions of the world, chief of which are Europe and the Far East. This power projection requires a tremendous support base to sustain. This in turn requires a large amount of foreign currency. Budgeting for foreign currency needs is somewhat more difficult because the budgeteer is dealing with a country other than his own with different laws, entitlements, tax policies, etc. that impact on the amount of resources needed to accomplish the mission. Of primary concern is the exchange rate that the budgeteer uses to forecast the dollars needed to execute the program in the overseas areas. His estimate of the amount of foreign currency needed can be 100% accurate, but if his estimate of the exchange rate is 5-10% off it could result in an unexecutable budget unless there were major reprogrammings or additional resources provided.

Recognizing that humans are not perfect, Congress has established foreign currency fluctuation accounts (FCFA) in those areas they considered most volatile to variations in exchange rates. For the Army, foreign currency fluctuation accounts have been established for daily operating costs (Operation and Maintenance, Army (OMA)) and construction costs (Military Construction, Army (MCA)). The theory behind these accounts is that when the dollar gains strength and the U.S. government is able to get more for its dollars, the "savings" generated because it costs less than the budgeteers had predicted go into the

FCFA. On the other hand, when the dollar loses strength and the U.S. government is able to get less for its dollars, the "losses" are covered by taking money from the FCFA. In theory if the predicted foreign currency exchange rates are relatively accurate and the U.S. dollar remains a relatively stable currency, the FCFA would be roughly self-perpetuating. If either the exchange rates are poorly estimated or the dollar is in a continual decline or increase over an extended period of time, the FCFA are of little value. At least, however, there is the recognition that the volatility of the money market and unpredictability of exchange rates warrant a flexible system that can accomodate change.

Today's budgeteer is in need of an additional tool to allow him to effectively accomplish his missions - predict the resources required, monitor execution of the allocated resources to ensure their proper use and continually "tweak" the system as reality deviates from the plan. This tool is the futures contract. It is needed not only to "save" the government money, but also to allow a dedicated group of individuals to interact in the process and give them pride of performance. This simple authority to enter into foreign currency futures instruments would offset expected adverse fluctuations in the foreign currency markets that affect the expenditure of funds at a lower rate than had been expected.

CURRENT PROCEDURES

The Army prepares its budget using an exchange rate for foreign currency that is established by DOD and validated or updated by Congress. This exchange rate determines the amount of dollars that are projected to support the Army's overseas requirements. Thus the amount budgeted for these needs is a function of how well the budgeteers have predicted the cost of the overseas activities (in foreign currency) and the accuracy of the exchange rate proffered by DOD and officially established by Congress.

Once the budget has been approved and the Army begins the execution phase, the dollars actually spent are a function of the daily currency rates prevalent throughout the year. The Treasury Department ensures this by dictating that "unless separately approved, no U.S. dollars shall be exchanged for foreign currency prior to the time that the foreign currency is needed for immediate funding requirements." [1] The Treasury Department must be strict on this requirement. As soon as an agent of the Treasury Department, Finance Corps officer or designated Department of Army civilian for the Army, writes a check on an account with the Treasury, the Treasury must have the dollars to cover the amount of the check or borrow the funds on the open market. In either case there is a basic cost of capital that must be factored into the transaction. There is a real cost if the Treasury must borrow to cover a treasury check or an opportunity cost if the money is on hand but cannot be used because it is encumbered by the treasury check. This philosophy then of not "buying" funds until they are actually needed is based in the sound principle of cash flow and the cost of capital. A Treasury agent is not in a position to purchase large reserves of foreign currency in anticipation of a weakening dollar. Even though the agent is not charged

interest for stockpiling currency and it "costs" him nothing, the "cost" to the Treasury is real and must be considered.

Throughout the year Treasury agents world-wide write checks to disburse government funds in support of operations from Germany to Japan from Saudi Arabia to India. The need for foreign currency remains relatively stable over the fiscal year. Hence, with the current policy of buying currency for immediate needs the Army is at the mercy of the world money market and the strength of the dollar. In a period of a strengthening dollar the budgeteer overseas finds himself creating a surplus or "saving" money because foreign currency is cheaper. The converse is true if the dollar is declining in value relative to other currencies. While the budgeteer's goal is to have budget=outlay, he can certainly react to a surplus easier than he can a deficit.

A surplus is handled in basically two ways. As was previously discussed, certain types of expenditures have foreign currency fluctuation accounts that are used in times of a strengthening dollar to adjust for the surplus. Where there are no foreign currency fluctuation accounts, the appropriation itself absorbs the surplus. Each method has its own peculiarities when there is a surplus.

If a foreign currency fluctuation account is used, the budget is not affected by an outside force, the foreign exchange market, over which the budgeteer has absolutely no control and no approach to assuage its impact. Thus if the budgeteer has planned to spend \$100 for a given mission in a foreign currency and because of the strength of the dollar it was only going to cost \$75 in foreign currency, the budget would still be charged the \$100 and the excess, \$25, would go into the foreign currency fluctuation account. The budgeteer is satisfied that budget=outlay and the Army has visibility of the "savings". The visibility of the

dollars becomes somewhat more difficult to track as the number of transactions that place surplus into the foreign currency fluctuation account increase, but in theory there will always be an audit trail of the funds that enter such an account. How this surplus is dealt with becomes another question. In theory the money should remain in the account as a buffer against the time when the dollar weakens and there is a need to supplement budgeted amounts that are less than outlays. In practice the Army has used such gains to offset shortfalls in its budget where there was a recognized need but no dollars to support it. This has always been done within the letter of the law in which the money was provided the Army by Congress.

The second method leaves the surplus that has been generated by the favorable foreign currency exchange rate in the appropriation that realized the gain. Thus in the example given where the budget was programmed to be charged \$100 for an activity it would only be charged \$75. In this case budget > outlay. The excess dollars remain in the overall pot of money and in theory at the end of the fiscal year the pot would contain \$25. Once again reality and theory diverge. The Army will attempt to use this \$25 by seeking Congressional approval to expend the money for previously unfunded items. There is much less flexibility in this case because, unless specific Congressional approval is given, the money must be spent within the bounds of the original pot of money. The overall visibility of surplus funds is much lower in this case as once again the numbers of transactions and size of the budget cause considerable obfuscation of individual transactions. Budgeteers at the lower levels have the best visibility of these surplus funds but are not always forthcoming with the information and tend to think of these surpluses as cushions to be used for unexpected or unprogrammed missions.

A deficit, on the other hand, presents considerably more challenge. As with the surplus, there are basically two ways used to account for a shortfall due to an adverse foreign currency exchange rate. The foreign currency fluctuation account becomes a donor rather than a recipient when the dollar is weakening and causes certain complications. For those appropriations dealing in foreign currency that do not have fluctuation accounts, the deficit is absorbed by the overall pot of money just as the surplus was absorbed. Again there are additional complications when there is a deficit rather than a surplus.

Should the dollar be declining in value, the \$100 budgeted for a specific activity may require an actual outlay of \$125 to obtain the foreign currency to pay the bill. If there is a foreign currency fluctuation account available, the budgeteer once again sees budget=outlay because the additional \$25 would come from the fluctuation account. The complication arises when there is nothing in the fluctuation account. Either the appropriation itself would have to absorb the shortfall or money would have to be reprogrammed from other sources in order to make the fluctuation account solvent. Currently certain balances from previous years can be transferred to the foreign currency fluctuation account to assist in neutralizing the impact of a weakening dollar. Should these balances not cover the shortfall, the Army must seek additional assistance from Congress in the form of reprogramming actions or supplemental appropriations. If this assistance is not forthcoming from Congress, the Army would have to curtail mission or support activities to absorb the shortfall.

If there is no foreign currency fluctuation account available, there is no option but to absorb the shortfall due to a weakening dollar within the appropriation and for the budgeteer budget<outlay. In this case, if Congress

does not grant reprogramming requests or supplemental appropriations, operations will be adversely affected. This becomes the budgeteer's worst nightmare. Through no fault of his own - in fact, his budget could still be 100% accurate - mission may not be accomplished because there are not enough dollars. This will have happened because the world has changed its collective mind about the value of the U.S. dollar.

The budgeteer who deals in foreign currency is required to use an exchange rate generated by Congress and has no tool to counteract a predicted shortfall due to a declining dollar or unrealistically optimistic exchange rate.

THE CHALLENGE TODAY

As a world power the United States has committed its defense forces in many countries in support of treaties, pacts and most importantly U.S. national security objectives. These bilateral and multilateral commitments result in host countries providing support to our forces, but still require a tremendous outlay of foreign currency by the U.S. government. The majority of the foreign currency impact occurs in deutsche mark (DM) dealings due to the number of soldiers stationed in Germany to support the U.S. commitment to NATO. In FY 90 the Army expects to realize a foreign currency shortfall of several hundred million dollars between the budget and actual outlays. The reasons as previously discussed are unrealistic budget rates and the weakening of the dollar.

The budget rate established by Congress for FY 90 was 2.03 DM= \$1. The actual exchange rate has not been above the 2.00 DM= \$1 range since the end of 1986 although at the time that Congress set the rate the dollar was showing signs of strengthening. Average outlay rates over the last few fiscal years do not support a 2.03 DM= \$1 exchange rate for FY 90.

FISCAL YEAR

AVG DM RATE

1987	1.87
1988	1.74
1989	1.87

The outlay rate for FY 90 through January 1990 has been approximately 1.80 DM= \$1. Thus our foreign currency execution rate has been 11.4% less than our budget

rate. There is no wonder that the U.S. Army is predicting close to a \$1 billion dollar shortfall in FY 90.

Had the Army been able to enter into short term currency futures instruments, the impact of the precipitous drop in the exchange rate from 1.87 DM= \$1 at the beginning of the fiscal year to 1.70 DM= \$1 today could have been lessened. These strategies, however, are not available to the Army. "DOD components must avoid currency speculation or any appearance thereof." [2] "No use shall be made of foreign currency options or forward contracts." [3] Most of the costs associated with foreign currency transactions are straight-lined throughout the year. This precludes the option of paying for an activity now if you expect the exchange rate to fall (This would also entail the cost of capital argument presented earlier). This factor coupled with the inability of the budgeteer to enter into futures instruments leaves him able to identify a shortfall but do nothing about it.

THE SOLUTION

Adjustments in funding levels due to foreign currency fluctuations require a three-pronged attack to minimize their effect on mission accomplishment. Budgets must be prepared as accurately as possible; the projected funding rate for the foreign currencies involved must reflect reality and budgeteers must have monetary tools available to offset unanticipated swings in the foreign currency market. In today's environment the budgeteer has only one of these prongs under his control.

It is the budgeteer's responsibility to ensure an accurate budget submission that mirrors the actual execution of resource allocation. If the budget is inaccurate there is no one to fault but the budgeteer. The other two prongs, however, are well outside his sphere of influence and can wreak absolute havoc with a 100% accurate budget. Congress establishes the exchange rate that will be used and controls the application of monetary tools that would allow the budgeteer to lessen the impact of foreign currency fluctuations.

The arcane mysteries surrounding the Congressional choice of a budget rate of exchange for foreign currencies are steeped in ambiguities. Congress sends a message by establishing a projected rate that has deeper meaning than just their expectation for the future. The projected rate of exchange is a Congressional statement that reflects a combination of reality, possibility, desire, budget constraints, etc. The budgeteer has little chance to affect this aspect of the budget process and must trust that when the rate chosen by Congress does not reflect reality, there is a greater good being served.

This leaves the final prong of the attack. Herein lies the sticking point. As has been previously noted, the Treasury Department, as implemented by DODI 7360.9, does not want government agencies involved in currency speculation or the appearance thereof. The primary Treasury Department argument against allowing government agencies to use futures instruments is that there is no need. Their view is that the U.S. government is such a huge organization that there is no requirement to hedge. The Treasury Department would argue that corporations deal in hedging because they are much smaller and it makes good business sense to try to take advantage of projected currency changes. The U.S. government, on the other hand, is so large and diverse that it can easily absorb gains or losses from currency fluctuations. While in fact this may be true overall it ignores the fact that some government agencies (DOD, State, etc.) will be affected much more acutely by foreign currency fluctuations than others simply by the nature of their mission. Additionally, the downward cycle of rate change can have a devastating effect as the dollar continuously loses strength. This downward pressure becomes more pronounced as the cycle lengthens. When the dollar continuously loses strength over several years with no respite, the budgeteer is forced to recommend mission cuts or "find" dollars in other programs and transfer the funds. The trough becomes more difficult to absorb the longer it lasts.

The Army experienced a period from FY 82 through FY 85 in which foreign currency requirements were a source of funds relative to projections because the dollar was on a steady, if not spectacular, rise against other world currencies especially the deutsche mark. During that period the average deutsche mark rate of exchange rose from a low of 1.78DM= \$1 to a high of 3.03 DM= \$1 - a 70% gain in purchasing power.[4] A prudent individual might have salted some of that "gain" away for the future cyclic trough that past history told us would be

coming. However, this was also the time of the solid growth in the defense budget during the first half of the Reagan presidency that created a sense of euphoria and increased program development to strengthen defense. Since budgeting for the daily needs of the Army is done on an annual basis, as opposed to a multiyear basis for research or procurement, spending it in the year that it was appropriated is the name of the game. This mentality has resulted in a "spend it or lose it" approach that emphasizes a near-term focus as opposed to a long-term focus.

This period of plenty was followed by a four year period of a weakening dollar that saw the purchasing power of the dollar drop even further than its previous low point in FY 81. The drop occurred much quicker than the gain. From FY 85 to FY 86 the dollar lost 42% of the gain that it had realized over the previous four year period.[5] When the Army went to its foreign currency fluctuation account that in theory should have built up during the years of plenty, there was no surplus to cover the loss being experienced as the dollar fell. The future had been sacrificed to solve the day-to-day requirements of the Army. Now all of a sudden the theory of how the foreign currency fluctuation account was to work hit home with the harsh reality that during periods when the dollar was losing strength there indeed was an impact on mission. Where before when the dollar was gaining against other currencies the difference between the budget and reality was a bookkeeping nuisance that was aesthetically unappealing to the budgeteer because reality=budget, now he had to go find real money to account for a shortfall. Currency futures or options would lessen the impact of declines in the dollar and not necessarily reduce gains realized during periods of a strengthening dollar.

There is no way to predict the future. The Army has no way of projecting how CFE, the changes in Eastern Europe, German reunification or other world events will affect the need for or the rate of foreign currency. There is, however, merit in modifying current policies to allow DOD to enter the currency market (hedge) to offset unexpected losses due to possible declines of the dollar. As the world enters a period of monumental change it behooves the Army to arm itself with the ability to take advantage of opportunities when they present themselves. The time for new thinking is here. Hedging is a policy whose time has come.

In addition to the argument that the Treasury Department opines that the government is too large to bother itself with currency speculation, it also claims that hedging would counter good budgeting principles by allowing for "savings" to be realized against a budgeted amount. In reality hedging is a strategy to stay on-budget not a method to increase the budget by speculation. A program that has been projected at 2 DM= \$1 which will be executed at an average of 1.5 DM= \$1 based on a declining dollar is over budget by definition. A hedging strategy that allows an average execution rate of 1.75 DM= \$1 does not gain money for the budgeteer, but rather is an attempt to minimize losses. An example from the business world offers a clearer picture of how a hedging strategy can prove beneficial.

"Suddenly, in 1985, perhaps predictably but certainly through no fault of its own, Waterford Crystal of Kilbarry, Ireland faced a potentially disastrous situation. The dollar began to sink against the Irish pound." [6] This was of considerable consequence due to Waterford being Irish-based and incurring virtually all of its costs in Irish pounds, but selling as much as 70% of its product on the U.S. market for dollars - an estimated \$50 million for 1986. Faced with

raising prices or accepting a steep decline in profit, Waterford chose to enter the foreign currency futures market. It purchased forward contracts against its anticipated U.S. receivables. The strategy paid off handsomely. Rather than exchanging its \$50 million at the current rate and receiving 37 million Irish pounds, Waterford was able to realize 48 million pounds using its forward contracts. This was such a dramatic chain of events that Waterford not only made a firm commitment to use foreign currency hedging in its corporate strategy, but went a step further. Realizing that it was too dependent on the U.S. market for its sales strength, Waterford bought the British chinemaker Wedgwood which had a much more global exposure. The result was that Waterford reduced its reliance on the U.S. market to under 30% of its total sales. In this case foreign exchange volatility and vulnerability were the prime factors in prompting not only an aggressive and proactive hedging policy, but a major diversification acquisition to protect against the vagaries of the foreign currency market.

There has been some recognition that a policy of hedging does have a place in government. On 18 June 1987 the Assistant Secretary of Defense for Force Management and Personnel issued a memorandum that authorized hedging for nonappropriated investment funds and military exchange headquarters. In the memorandum Mr. Armor supported the decision to allow hedging by saying that "significant fluctuations in foreign currency rates over the past several months have adversely impacted NAFI operations in foreign countries." [7] The memorandum allowed those authorized to use either forward contracts or forward options to decrease risks associated with foreign currency fluctuations. Both are used in a period of a declining dollar. A discussion of their advantages and disadvantages follows.

A forward contract obligates the buyer to purchase foreign currency at a specified rate at a future date. The rate is based on prevailing interest rates. Thus, if today's spot rate is 2 DM= \$1 and the buyer expects the dollar to decline over the next six months, he would enter into a forward contract that might yield, for example, 1.95 DM= \$1 in six months. If the dollar drops more than the projected 5 pfennigs to the dollar, the buyer has successfully hedged himself and "saved" money. If, on the other hand, the dollar has strengthened during this period or remained the same, the buyer has "lost" money because he has obligated himself to purchase at a lower rate than the spot market would yield. The following table illustrates the various scenarios.

CURRENT RATE: 2DM = \$1.00
 FORWARD CONTRACT RATE: 1.95DM = \$1.00
 CONTRACT AMOUNT: 2,000,000 DM

RATE OF EXCHANGE AT MATURITY	CONTRACT COST	SPOT MARKET	"SAVINGS"
1.80 (10% decline)	1,025,641	1,111,111	85,470
1.95	1,025,641	1,025,641	-0-
2.00 (no change)	1,025,641	1,000,000	(25,641)
2.20 (10% gain)	1,025,641	909,091	(116,550)

TABLE 1

This example shows that if the dollar does decline by at least the predicted amount the buyer has been successful in his hedge. The downside, however, is that should the projection be in error and the dollar actually strengthen, the

buyer has locked himself into a contract that will cost him additional funds compared to the spot market. This downside risk during a period of high volatility would naturally cause some concern in the conservative world of the U.S. government.

A second strategy that limits the downside risk is the futures option. While the premium paid is minimally higher, the risk limitation factor more than offsets the additional premium. A futures option gives the buyer the option to purchase foreign currency at a specified rate at a future date. The option price depends on interest rates, market volatility and projected contract rate. It is much like the premium paid for an insurance policy. An example of how an option might work is detailed in Table 2.

CURRENT RATE: 2DM = \$1.00
 OPTION RATE: 1.95 DM = \$1.00
 CONTRACT AMOUNT: 2,000,000 DM
 OPTION PREMIUM: 2.5% OF CURRENT RATE

RATE OF EXCHANGE AT MATURITY	CONTRACT COST	SPOT MARKET	"SAVINGS"
1.80 (10% decline)	1,052,632	1,111,111	58,479
1.95	1,052,632	1,025,641	(26,991)
2.00 (no change)	1,025,641	1,000,000	(25,641)
2.20 (10% gain)	930,233	909,091	(21,142)

TABLE 2

A comparison between Table 1 and Table 2 will show that using a futures option as opposed to a futures contract results in somewhat less "savings" if the

dollar declines as predicted, but restricts the possible losses should the dollar in fact strengthen. This is to be expected because of the difference between a contractual obligation to buy and an option to buy. Using a futures option will necessarily incur the cost of the premium regardless of the rate, but allows the buyer the flexibility to use the spot market if his prediction for the dollar proves wrong.

Whether the Army uses forward contracts, forward options or a combination of the two is not the question. The question is whether the Army will be able to enter the foreign currency market at all for its appropriated funds. "Hedging is no longer a luxury but a necessity." [8] The U.S. government must accept this fact if it is to fully realize its most effective strategy in these days of declining budgets.

SUMMARY

Many factors will impact on the foreign currency needs of the U.S. Army over the next few years, especially in Germany where our major foreign currency commitments are. Troop reductions overseas will decrease the need for the deutsche mark. Possible troop reductions in the Far East may decrease the need for the Japanese yen and reduce the expenditures in Korea. The reunification of Germany may prove a windfall if the deutsche mark is revalued to accomodate the West German assimilation of East Germany. On the other hand, some have predicted a strengthening of the deutsche mark after reunification that would see the dollar fall even lower than its current level. As is the norm, the world is an uncertain place with no prognosticator capable of predicting the future with any surety. These conditions coupled with the projected dramatic decline in the defense budget make it imperative that today's budgeteer get the most out of each dollar. The authority to engage in foreign currency futures instruments gives the budgeteer a much needed tool to execute his mission and in the process do it better. Whether it be termed cost avoidance or savings, the bottom line is that valuable resources will be made available to further the overall mission of the U.S. Army - the national security of the United States.

ENDNOTES

1. U.S. Department of Defense, Department of Defense Instruction 7360.9, p. 3.
2. Ibid.
3. Ibid.
4. U.S. Department of the Army, Assistant Secretary of the Army for Financial Management Briefing Chart, #7.
5. Ibid., #7
6. Richard L. Stern, "(Dangerous) Fun and Games in the Foreign Exchange Market," Forbes, 22 August 1988, p. 69.
7. David J. Armor, U.S. Department of Defense, Memorandum, Subject: Nonappropriated Fund Instrumentality (NAFI) Management of Foreign Currency, 18 June 1987, p. 1.
8. Stern, p. 71

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